

CITY AUDITOR'S OFFICE



INTERNAL CONTROL REVIEW ACTIVITY REPORT JUNE 30, 2006

Report No. CAO 2900-0607-01

August 11, 2006

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CITY AUDITOR**

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
JUNE 30, 2006

CAO 2900-0607-01**

BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation, the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic *Internal Control Review Activity Reports*, the Office educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Memorandum is released to the appropriate levels of management and the Mayor and City Council. This assists in the correction of deficiencies and reports on the adequacy and effectiveness of existing controls.
- Semiannually, a summary report is made of all findings and recommendations from the Internal Control Review Memorandums and released in a formal *Internal Control Review Activity Report*.

This report recaps the Internal Control Review Memorandums issued since the last *Internal Control Review Activity Report* (December 31, 2005), including a list of all memorandums issued with a synopsis of the findings and recommendations. The recommendations are entered into the follow-up system for tracking purposes

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

OBJECTIVES

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Review Memorandums; and
- Report to the public the results of activities of the City Auditor's Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the adequacy of existing internal controls;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

SCOPE AND METHODOLOGY

Fieldwork performed during each of the Internal Control Reviews was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

INTERNAL CONTROL MEMORANDUMS ISSUED

ICR 024 Internal Control Review: Deposit Theft at Brinley Community School

Background:

- On September 21, 2004, Finance notified the Department of Detention and Enforcement of a suspected theft by a Recreation Leader at Brinley Community School.
- On September 17, 2004, the Brinley Community School Recreation Leader assigned with delivering the daily deposit bag to the bank night depository stole the deposit bag and its contents, including \$2,577.00 in cash and \$6,579.50 in checks.
- Per discussions with Bank personnel, there is no record that the deposit bag was ever placed in the bank night depository.
- In January 2006, the former Recreation Leader pled guilty to three counts of Gross Misdemeanors in District Court and agreed to pay restitution in the amount of \$9,156.50

Findings / Conclusions: This theft was the result of the actions of a dishonest employee in a position of responsibility. While this theft may have been avoided if dual custody was required in transporting deposits to the bank, this practice is not always practical and cost effective.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

During our review of this theft, we did not identify any deposit procedure control failures and found the internal controls over deposits at Brinley Community School to be adequate. In addition, the Department of Finance identified the theft in a timely manner.

Recommendation:

1. Leisure Services management should evaluate the practicality and cost of the following options to improve controls over the transportation of deposits from Community School sites to bank night deposit boxes:
 - Require dual custody in transporting deposits to the bank at those Community School sites with large deposits. Dual custody could be required when deposits reach a specified threshold at a site.
 - Require bank deposits to be taken to the bank during working hours and require employees to obtain a deposit receipt.

ICR 025 Internal Control Review: IT P-Card Misuse

Background: An IT Manager became suspicious of several P-Card transactions of an employee he supervised and contacted Finance and Business Services to obtain additional information. Upon further review, he informed the IT Director who immediately called for a meeting with Finance and Business Services, Detention and Enforcement, and the City Auditor's Office.

The City Auditor's Office subsequently conducted an Internal Control Review including an interview with the employee. Upon presentation of the evidence, the employee admitted to making 34 personal purchases totaling \$8,414.55 with her city P-Card. The employee noted that she had mistakenly used the "wrong card" with several transactions thinking the P-Card was one of her personal credit cards. In addition to these P-Card purchases, an additional \$270 in cash handled by the employee was unaccounted for.

Findings / Conclusions:

- The City's P-Card Policy states that "the Department Director or Designee shall review each P-Card expenditure to ensure the goods and services were necessary and for official use." The IT Manager was the "designee" and the key detective control for ensuring the employee's P-Card purchases were appropriate. While the supervisor eventually raised questions over some questionable P-Card purchases, until that time he failed in his responsibility to review the appropriateness of the employee's P-Card purchases.
- The employee regularly noted on the P-Card transaction log that she had reimbursed or would reimburse the city for the purchase amount. The employee's supervisor failed to identify this "red flag" and verify that the employee had reimbursed the amounts.
- The employee was not reconciling the P-Card transactions in a timely manner. While the supervisor was aware of this and discussed the problem with the employee, he was not effective in his follow-up to ensure the problem was corrected.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

Recommendations:

1. Detention and Enforcement should use the evidence obtained during this Internal Control Review and pursue criminal charges against the employee.
2. Information Technologies management should improve existing internal controls over P-Card purchases by:
 - Reviewing responsibilities and expectations of P-Card reviewers and approvers with staff.
 - Ensuring P-Card reviewers are appropriately scrutinizing P-Card purchases.
 - Ensuring P-Card reviewers are monitoring the timeliness of P-Card reconciliations.
 - Ensuring P-Card reviewers are obtaining supporting documentation for purchases identified as having been reimbursed to the City by an employee.

ICR 026 Internal Control Review: Neighborhood Services P-Card Compromise

Background: On 11/22/05, the City's bank contacted the City's Purchasing Division regarding five potentially fraudulent charges to a City P-Card on 11/21/05 and 11/22/05. The P-card was assigned to a Rapid Response Crew Leader in Neighborhood Services. The City Auditor's Office subsequently completed an Internal Control Review of this incident including an interview with the employee whose P-Card number had been compromised.

Findings and Conclusions: Per discussions with a bank representative, the bank processed two of the questionable charges. The bank's fraud division is reviewing these two transactions. The other three questionable charges with the P-Card number were attempted but were declined by the bank.

Per discussions with the vendors of the two processed charges, the purchases did not originate in Las Vegas and the products/services related to these charges were never delivered.

In our interview with the P-card holder, the employee stated that he had never used his P-Card for internet purchases and doesn't know how his P-Card number was compromised. No evidence gathered contradicted the employee's representation. The cardholder has signed an affidavit stating that he did not initiate the charges.

No specific weaknesses in the City's controls over P-cards specific to this incident were identified during our review.

While it is unclear how the city P-Card number was compromised, we will follow-up with the bank once their investigation is complete to determine if additional security controls over P-cards should be implemented.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

In conjunction with this Internal Control Review, we reviewed the City's P-Card Policies and Procedures and attended the City's P-Card training to determine if employees are instructed on how to protect their P-Cards. The following deficiencies were noted:

- The City's P-Card Policy states, "The Cardholder shall be responsible for the use and security of the P-Card." The City's P-Card Procedure states, "A cardholder is responsible for proper use and security of their P-card." Neither the Policy nor the Procedure offers guidelines on how to secure a P-Card and the account number.
- The City's P-Card training handout states, "It (the P-card) is a real credit card and the cardholder is responsible for keeping it secure". The training handout does not offer any guidelines on how to keep the P-card or the account number secure.

Recommendation:

1. Finance and Business Services should improve the P-Card Policy and Procedure and employee training to include a discussion of measures a cardholder should take to protect both their P-card and account number. Possible recommended practices could include the following suggestions from the Federal Trade Commission (www.ftc.com):
 - Sign your card as soon as it is received.
 - Watch your card during a transaction.
 - Cross out all but the last 4 digits of your number if entire account number shows on the receipt.
 - Void incorrect receipts.
 - Destroy carbons.
 - If there are blank lines on a receipt, draw a line through them before signing.
 - Only give your card number over the phone or on the Internet if the company is reputable.

ICR 027 Internal Control Review: Municipal Court - Missing Deposit

Background: On Friday, November 4, 2005, the Municipal Court moved to new offices at the Regional Justice Center. On Monday November 7, 2005, an Accounting Technician in Municipal Court Accounting discovered that a Court Clerk's daily revenue totaling \$1350.00 had not been deposited from the previous Friday. The Accounting Technician informed the Interim Division Manager of the missing deposit. The Interim Division Manager and the Municipal Court Office Supervisor searched to no avail for the missing funds. The Interim Division Manager contacted the acting Court Administrator, who contacted Detention and Enforcement, who in turn contacted the City Auditor's Office.

Findings/Conclusions: A Court Clerk collected money the morning of Friday, November 4, 2005. She subsequently turned over her change bank to another Court Clerk. A Senior Clerk secured the Court Clerk's locked moneybag containing that day's revenue in a drawer with other moneybags. The Court Clerk left for the day without counting and depositing her revenues, as

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

required by Court procedure. However, Senior Clerks do not verify that each Court Clerk's deposit is dropped in the safe prior to leaving.

Recommendation:

1. The Municipal court should require that Senior Court Clerks verify that Court Clerk's count and deposit their daily revenue before they leave for the day.

ICR 031 Internal Control Review: Processing of Leisure Services Oracle Invoice Payments

Background: Finance identified an unusual cash payment reversal of \$1,300 by a staff member at the Sports Office. The City Auditor's Office working with the Department of Finance investigated the nature of this transaction.

Findings / Conclusions: On February 21, 2006, a Sports Office employee recorded a \$1,300 program fee payment from a soccer league into the Leisure Services system known as CLASS that had been originally invoiced from the City's financial system, Oracle. Upon discovery of this recording error and knowing the payment should be recorded into Oracle, the Sports Office supervisor had the employee contact the soccer league representative and request that they return to the Sports Office to obtain the \$1,300 and take the payment to the Department of Finance for processing. On February 22, 2006, the Sports Office employee completed a cash payment reversal of \$1,300 on the CLASS System and returned the cash to the soccer league representative. The soccer league subsequently mailed the payment to the Department of Finance.

While the City experienced no monetary loss as a result of the transaction, the Sports Office staff inappropriately handled this payment as it should not have been returned to the customer and the system recording issue should have been resolved internally.

The Leisure Services Accounting Technician stated that the following procedures should be followed when Leisure Services staff receives a payment for an Oracle Accounts Receivable Invoice:

- The payment should be recorded into the CLASS System.
- A note should be made in CLASS that the payment is for an Oracle Accounts Receivable Invoice.
- An e-mail should be sent to the Accounting Technician or Accounting to alert them of the payment.
- Accounting will make the appropriate adjustment.

Recommendation:

1. Leisure Services working with Finance should formally document procedures to be followed by Leisure Services employees who receive payments for Oracle Accounts Receivable Invoices. These procedures should be communicated to Leisure Services employees.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

ICR 032 Internal Control Review: Missing Change Fund at Doolittle Pool

Background: In April 2006, a Financial Analyst from Financial Services began an audit of the City's petty cash and change funds. In response to an inquiry by the Financial Analyst regarding the change fund at the Doolittle Pool, the Aquatic Supervisor discovered that the change fund was missing.

Findings / Conclusions: On May 31, 2005, the Aquatic Supervisor became the Custodian of a \$25 change fund to use for the 2005 summer pool season. Per discussions with the Custodian, she stated that the change fund is missing and she is unable to recall what happened with the change fund at the end of the 2005 season. She stated that the fund was supposed to be locked in the safe at Doolittle but was not sure it had been. While not identified in any procedure, the City pools should return their change funds to Finance at the end of the summer season. The Doolittle Pool change fund was not returned to Finance at the end of the 2005 season.

The Petty Cash/Change Fund Procedure (FN305a) states: "Change Fund Custodians are responsible for: The operation of the specific Change Fund assigned." It further defines the custodian as "a specific individual appointed by name to assume legal responsibility for the operation of a specific Change Fund." The Aquatics Supervisor did not meet the obligations of her role as Change Fund Custodian.

Recommendations:

1. The Petty Cash/Change Fund Procedure should be revised to include a procedure requiring Change Fund Custodians at seasonal pool sites to return their change fund to Finance at the end of the summer season.
2. Finance should implement procedures to ensure all seasonal change funds have been returned at the end of the summer season.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

**MANAGEMENT RESPONSES
TO
INTERNAL CONTROL REVIEW ACTIVITY REPORT**

1. ICR 024 Internal Control Review: Deposit Theft at Brinley Community School

Recommendation 1: Leisure Services management should evaluate the practicality and cost of the following options to improve controls over the transportation of deposits from Community School sites to bank night deposit boxes:

- Require dual custody in transporting deposits to the bank at those Community School sites with large deposits. Dual custody could be required when deposits reach a specified threshold at a site.
- Require bank deposits to be taken to the bank during working hours and require employees to obtain deposit receipt.

Management Response: Agree. Dual custody deposits set at a combined total of \$10,000 per day. A deposit requiring dual custody will have the deposit slip signed by both staff. All deposits are to be taken inside the bank with a receipt of deposit attached. A written guideline to this affect will be sent to the Brinley Coordinator and a copy will be provided to the Auditors office by the date indicated below.

Estimated Date of Completion: 8/31/06

2. ICR 025 Internal Control Review: IT P-Card Misuse

Recommendation 1: Detention and Enforcement should use the evidence obtained during this Internal Control Review and pursue criminal charges against the employee.

Management Response: Agree. Arrest Warrant was sent to the District Attorney's office on July 10, 2006 and subject was arrested on July 14, 2006.

Estimated Date of Completion: Completed.

Recommendation 2: Information Technologies management should improve existing internal controls over P-Card purchases by:

- Reviewing responsibilities and expectations of P-Card reviewers and approvers with staff.
- Ensuring P-Card reviewers are appropriately scrutinizing P-Card purchases.
- Ensuring P-Card reviewers are monitoring the timeliness of P-Card reconciliations.
- Ensuring P-Card reviewers are obtaining supporting documentation for purchases identified as being reimbursed by an employee.

Management Response: We have modified our internal process for P-Card review.

(1) Updated policy and procedures related to P-Card use will be distributed to all I.T. P-Card holders.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

(2) Each manager will initial only those items that he personally requested or authorized. The transaction sheet will be routed to each manager for his initials.

(3) The admin secretary will oversee the timely submittal of P-Card transactions for reconciliation. Each P-Card user will be informed that reconciliations shall be submitted on time, based on the schedule set forth by the Department of Finance and Business Services. Any late submittals will be brought to the attention of the IT director or deputy director. Multiple occurrences of late submittals may result in disciplinary actions and/or revocation of that person's P-Card.

(4) Staff will be notified that no personal use of P-Card will be tolerated. Failure to adhere to that policy may result in disciplinary actions and/or revocation of that person's P-Card.

Estimated Date of Completion: 8/1/06

3. ICR 026 Internal Control Review: Neighborhood Services P-Card Compromise

Recommendation 1: Finance and Business Services should improve the P-Card Policy and Procedure and employee training to include a discussion of measures a cardholder should take to protect both their P-card and account number. Possible recommended practices could include the following suggestions from the Federal Trade Commission (www.ftc.com):

- Sign your card as soon as it is received.
- Watch your card during a transaction.
- Cross out all but the last 4 digits of your number if entire account number shows on the receipt.
- Void incorrect receipts.
- Destroy carbons.
- If there are blank lines on a receipt, draw a line through them before signing.
- Only give your card number over the phone or on the Internet if the company is reputable.

Management Response: To mitigate any future risk compromised P-Card account numbers, the Procurement Card Program Policy and Procedure, as well as, cardholder instruction have been updated to incorporate the recommended practices for proper securing of P-Cards.

Estimated Date of Completion: September 30, 2006

4. ICR 027 Internal Control Review: Municipal Court - Missing Deposit

Recommendation 1: Senior Clerk procedures should include ensuring that all Court Clerk's, who have revenue transactions, count and deposit their daily revenue before they leave for the day.

Management Response: The following procedure was implemented subsequent to our move to the RJC:

INTERNAL CONTROL REVIEW

ACTIVITY REPORT

June 30, 2006

CAO 2900-0607-01

- 1) Counter employees who have received a bank and/or generated revenue will count their funds and bank following normal deposit preparation procedures. A second clerk will verify the clerk's deposit and initial the deposit slip attesting to the accuracy of the deposit.
- 2) The verifier witness the clerk's beginning bankroll and revenue drops and initial the Bank Assignment/Revenue Drop Log attesting that the funds are secured in the safe.
- 3) Prior to shift departure the lead clerk/supervisor reviews the Bank Assignment/Revenue Drop Log to validate that all banks are accounted for.
- 4) The lead clerk/supervisor investigates any bank/revenue drop that has not been verified prior to staff departure for the day.

Estimated Date of Completion: Completed

5. ICR 031 Internal Control Review: Processing of Leisure Services Oracle Invoice Payments

Recommendation 1: Leisure Services working with Finance should formally document procedures to be followed by Leisure Services employees who receive payments for Oracle Accounts Receivable Invoices. These procedures should be communicated to Leisure Services employees.

Management Response: LS is working on compiling a procedure that will correct any future situations of this nature. LS will disseminate this new instruction to staff once it's been approved by Finance and Leisure Management.

Estimated Date of Completion: 9/10/06

6. ICR 032 Internal Control Review: Missing Change Fund at Doolittle Pool

Recommendation 1: The Petty Cash/Change Fund Procedure should be revised to include a procedure for Change Fund Custodians at seasonal pool sites to turn their change fund back into Finance at the end of the season.

Management Response: Recreation Division Management agrees and will comply with audit recommendations. The new procedure will be introduced at the Aquatics Staff meeting. Change fund custodians (Pool Managers) will return their change funds to City of Las Vegas Finance Department as soon as seasonal pools close.

Estimated Date of Completion: 9/1/06

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
June 30, 2006
CAO 2900-0607-01**

Recommendation 2: Finance should implement procedures to ensure all seasonal change funds have been returned at the end of the season.

Management Response: As recommended, the Petty Cash/Change Fund Procedure is being modified to require the seasonal funds be returned to Treasury in a timely manner. We have established an internal procedure to ask the Change Fund Custodian when requesting the fund to give an estimated return date for the funds. This date will be noted in a tickler file and Treasury personnel will follow up to ensure the seasonal funds are returned.

Estimated Date of Completion: September 30, 2006.